

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Richmond Township	County Osceola
Fiscal Year End 03/31/2007	Opinion Date 07/27/2007	Date Audit Report Submitted to State September 28, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☒ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☒ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number (231) 775-9789	
Street Address 134 W. Harris Street		City Cadillac	State MI
Zip 49601			
Authorizing CPA Signature 		Printed Name Michael D. Cool, C.P.A.	License Number 1101023146

RICHMOND TOWNSHIP, OSCEOLA COUNTY

REED CITY, MICHIGAN

MARCH 31, 2007

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

MARCH 31, 2007

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RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

MARCH 31, 2007

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July 27, 2007

INDEPENDENT AUDITORS' REPORT

To the Township Board
Richmond Township
Osceola County
Reed City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Richmond Township, Osceola County, Reed City, Michigan, as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Richmond Township, Osceola County, Reed City, Michigan, as of March 31, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through ix and budgetary comparison information on page 29 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Richmond Township, Osceola County, Reed City, Michigan's basic financial statements. The combining and individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

Richmond Township, a general law township located in Osceola County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Richmond Township board's discussion and analysis of the financial results for the fiscal year ended March 31, 2007.

Financial Highlights

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$983,110. Of this amount, \$325,407 may be used to meet the township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's governmental fund reported ending fund balance of \$344,468. About 89.8% is available for spending at the Township's discretion.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Township's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include general government and administration, public safety, public works, capital outlay and other functions. The business-type activities of the Township include Sewer operation.

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. All of the funds of the Township can be divided into two categories - governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds – The Township maintains one proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township uses enterprise funds to account for its sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sewer Fund since it is considered to be a major fund of the Township.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township's financial position over time. The Net Assets of the Township are \$983,110 at March 31, 2007, meaning the Township's assets were greater than its liabilities by this amount.

Richmond Township
Net Assets as of March 31, 2007

	Governmental Activities	Business-Type Activities	Total Primary Government
Assets			
Current Assets	\$ 346,978	\$ 5,264	\$ 352,242
Non Current Assets			
Capital Assets	317,956	629,895	947,851
Less: Accumulated Depreciation	(42,920)	(49,776)	(92,696)
Total Non Current Assets	275,036	580,119	855,155
Total Assets	\$ 622,014	\$ 585,383	\$ 1,207,397
Liabilities			
Current Liabilities	\$ 2,510	\$ 44,854	\$ 47,364
Long-Term Liabilities	0	176,923	176,923
Total Liabilities	\$ 2,510	\$ 221,777	\$ 224,287
Net Assets			
Invested in Capital Assets, Net of Related Debt	275,036	382,667	657,703
Unrestricted	344,468	(19,061)	325,407
Total Net Assets	619,504	363,606	983,110
Total Liabilities and Net Assets	\$ 622,014	\$ 408,460	\$ 1,207,397

The most significant portions of the Township's Net Assets are cash and investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others). The Township is not responsible for any long-term debt as of March 31, 2007. Other liabilities are minimal as of March 31, 2007.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

The total net assets of the Township increased by \$273,706 or 38.6% in this fiscal year, which is a good indicator that the Township experienced positive financial growth during the year. As a result, the Township ended the fiscal year in better condition than when the year began.

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.

Richmond Township
Change in Net Assets
for the Fiscal Year Ended March 31, 2007

	Governmental Activities	Business-Type Activities	Total Primary Government
<u>Revenues</u>			
Program Revenues			
Charges for Services	\$ 24,938	\$ 8,458	\$ 33,396
Operating Grants and Contributions	3,708	0	3,708
Capital Grants and Contributions	11,267	0	11,267
General Revenues			
Property Taxes and Assessments	78,887	0	78,887
State Shared Revenue	115,759	0	115,759
Unrestricted Investment Earnings	15,237	379	15,616
Contributions from Local Units	0	200,000	200,000
Other	306	0	306
Total Revenues	250,102	208,837	458,939
<u>Expenses</u>			
Legislative	20,159	0	20,159
General Government, Administrative	67,637	0	67,637
Public Safety	52,933	0	52,933
Public Works	18,795	0	18,795
Community and Economic Development	500	0	500
Other Functions	13,223	0	13,223
Capital Outlay	855	0	855
Sewer	0	11,131	11,131
Total Expenses	174,102	11,131	185,233
Changes in Net Assets	76,000	197,706	273,706
NET ASSETS - Beginning of Year	543,504	165,900	709,404
NET ASSETS - End of Year	\$ 619,504	\$ 363,606	\$ 983,110

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

Governmental Activities

During the fiscal year ended March 31, 2007, the Township's net assets increased by \$273,706 or 38.6% in the governmental funds. The majority of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This is true despite the fact that GASB 34 now requires the Township to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

The most significant part of the revenue for all governmental activities of Richmond Township comes from state shared revenue. State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax.

The Township levied a millage for operating purposes this fiscal year. The Township levied 0.9549 mills for operating purposes and 0.6000 mills for fire equipment

The Township's governmental activities expenses are dominated by general governmental expenses that total 38.8% of total expenses. The Township spent \$67,637 in fiscal year 2007 on general administrative expenses. Public safety represented the next largest expense at \$52,933 followed by legislative at \$20,159. These represent 30.4% and 11.6% respectively. Depreciation expense added another \$6,937.

Business-Type Activities

The Township utilizes a Sewer Fund to account for its sewer operations. Revenue is collected from customers within the Township. These charges for services totaled \$8,458 for 2007. The Township pays operating and maintenance expenses of \$1,583 or 14.22%. Depreciation expense of \$6,300 accounted for 56.60%. Interest expense of \$3,248 of the sewer fund expenses accounted for the remaining 29.18%.

Sewer operations experienced a 119.2% increase in net assets. This is due mainly to the contribution from the Downtown Development Authority.

The Sewer Fund is the Township's only Business-Type activity.

Financial Analysis of the Government's Funds

Governmental Activities The focus of Richmond Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

General Fund – The General Fund decreased its fund balance by \$49,022 which brings the fund balance to \$320,753. Of the General Fund's fund balance, \$309,498 is unreserved while \$11,255 is reserved for advances. All of the General Fund's functions, except for the Clerk and Elections ended the year with

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

expenditures below budgeted amounts. The Clerk and Elections differential was funded by available fund balance. Tax revenue was \$55,172. State grant revenues were \$130,734.

Fire Equipment Fund – The Fire Equipment Fund is a new fund and received \$23,715 in property tax revenues. The Fire Equipment Fund ended the fiscal year with a fund balance of \$23,715.

Proprietary Fund The Township's proprietary fund provides the same information as the government-wide statements.

Sewer Fund – The Sewer Fund ended the fiscal year with an increase in net assets of \$197,706. This is due largely to the \$200,000 contribution from the Downtown Development Authority. Net assets invested in capital assets decreased by the amount of the depreciation deduction of \$6,300. A positive change in cash flows illustrates that actual cash inflows are higher than cash outflows.

Capital Assets and Debt Administration

Capital Assets. The Township's investment in capital assets for governmental and business-type activities as of March 31, 2007 amounted to \$855,155 net of accumulated depreciation. The total net increase in the Township's investment in capital assets for the current fiscal year was \$514,899 in the governmental and business-type activities.

Capital assets summarized below include any items purchased with a cost greater than \$300 individually and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

Richmond Township
Capital Assets as of March 31, 2007

	Governmental Activities	Business-Type Activities	Total Primary Government
Land and Land Improvements	\$ 23,367	0	\$ 23,367
Buildings	28,435	0	28,435
Improvements Other than Buildings	0	629,895	629,895
Equipment, Furniture and Fixtures	28,016	0	28,016
Infrastructure	238,138	0	238,138
	317,956	629,895	947,851
Less Accumulated Depreciation	(42,920)	(49,776)	(92,696)
Net Capital Assets	\$ 275,036	\$ 580,119	\$ 855,155

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

Major capital asset events during the current fiscal year included the following:

- ◆ The general fund portion of paving amounted to \$96,977.
- ◆ The purchase of voting machines amounted to \$11,267.

Long-Term Debt. At the end of the current fiscal year, the Township had total installment debt outstanding of \$197,452 for the sewer extension project. Additional information on the Township's long-term debt can be found in the notes to the financial statements.

Economic Condition and Outlook

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential further reductions in state-shared revenues.

These factors were considered in preparing the Township's budgets for the 2007-08 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Richmond Township at 19099 U.S. Highway 10, Reed City, Michigan 49677.

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

STATEMENT OF NET ASSETS
MARCH 31, 2007

	PRIMARY GOVERNMENT			COMPONENT UNIT
	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTALS	
<u>ASSETS</u>				
Cash	\$ 265,190	\$ 15,608	\$ 280,798	\$ 122,473
Receivables:				
Taxes	5,609	0	5,609	0
Accounts	0	4,867	4,867	0
External Parties (Fiduciary Funds)	32,943	0	32,943	0
Due from Other Governments	28,025	0	28,025	0
Internal Balances	15,211	(15,211)	0	0
Prepaid Expenses	0	0	0	0
Total Current Assets	346,978	5,264	352,242	122,473
<u>CAPITAL ASSETS</u>				
Land and Land Improvements	23,367	0	23,367	0
Buildings	28,435	0	28,435	0
Improvements Other Than Buildings	0	629,895	629,895	0
Equipment, Furniture and Fixtures	28,016	0	28,016	0
Infrastructure	238,138	0	238,138	7,464
	317,956	629,895	947,851	7,464
Less Accumulated Depreciation	(42,920)	(49,776)	(92,696)	(809)
Net Capital Assets	275,036	580,119	855,155	6,655
TOTAL ASSETS	622,014	585,383	1,207,397	129,128
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Accounts Payable	1,665	22,440	24,105	0
Accrued Interest	0	1,885	1,885	0
Payroll Deductions Payable	845	0	845	
Current Portion of Note Payable	0	20,529	20,529	0
Total Current Liabilities	2,510	44,854	47,364	0
<u>LONG-TERM LIABILITIES</u>				
Note Payable	0	176,923	176,923	0
TOTAL LIABILITIES	2,510	221,777	224,287	0
<u>NET ASSETS</u>				
Invested in Capital Assets, Net of Related Debt	275,036	382,667	657,703	6,655
Unrestricted	344,468	(19,061)	325,407	122,473
TOTAL NET ASSETS	\$ 619,504	\$ 363,606	\$ 983,110	\$ 129,128

The accompanying notes are an integral part of the financial statements.

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2007

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS				
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT			COMPONENT UNIT	
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS		
PRIMARY GOVERNMENT									
<u>GOVERNMENTAL ACTIVITIES</u>									
Legislative	\$ 20,159	\$ 0	\$ 0	\$ 0	\$ (20,159)	\$ 0	\$ (20,159)	\$ 0	
General Government, Administrative	67,637	7,960	0	11,267	(48,410)	0	(48,410)	0	
Public Safety	52,933	1,217	0	0	(51,716)	0	(51,716)	0	
Public Works	18,795	15,761	3,708	0	674	0	674	0	
Community and Economic Development	500	0	0	0	(500)	0	(500)	0	
Other Functions	13,223	0	0	0	(13,223)	0	(13,223)	0	
Capital Outlay	855	0	0	0	(855)	0	(855)	0	
Total Governmental Activities	174,102	24,938	3,708	11,267	(134,189)	0	(134,189)	0	
<u>BUSINESS-TYPE ACTIVITIES</u>									
Sewer System	11,131	8,458	0	0	0	(2,673)	(2,673)	0	
TOTAL PRIMARY GOVERNMENT	\$ 185,233	\$ 33,396	\$ 3,708	\$ 11,267	(134,189)	(2,673)	(136,862)	0	
<u>COMPONENT UNIT</u>									
Downtown Development Authority	\$ 210,123	\$ 0	\$ 0	\$ 0	0	0	0	(210,123)	
<u>GENERAL REVENUES</u>									
Taxes					78,887	0	78,887	72,036	
State Shared Revenue					115,759	0	115,759	0	
Unrestricted Investment Earnings					15,237	379	15,616	7,687	
Contributions from Local Units - D.D.A.					0	200,000	200,000	0	
Other					306	0	306	0	
Total General Revenues					210,189	200,379	410,568	79,723	
Change in Net Assets					76,000	197,706	273,706	(130,400)	
<u>NET ASSETS</u> - Beginning of Year					543,504	165,900	709,404	259,528	
<u>NET ASSETS</u> - End of Year					\$ 619,504	\$ 363,606	\$ 983,110	\$ 129,128	

The accompanying notes are an integral part of the financial statements.

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
MARCH 31, 2007

	GENERAL FUND	FIRE EQUIPMENT FUND	TOTALS
<hr/>			
<u>ASSETS</u>			
Cash	\$ 265,190	\$ 0	\$ 265,190
Taxes Receivable	3,460	2,149	5,609
Advance to Other Fund	11,255	0	11,255
Due from Other Funds	15,333	21,566	36,899
Due from Other Governments	28,025	0	28,025
<hr/>			
TOTAL ASSETS	\$ 323,263	\$ 23,715	\$ 346,978
<hr/>			
<u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 1,665	\$ 0	\$ 1,665
Payroll Deductions Payable	845	0	845
<hr/>			
Accounts Payable	\$ 2,510	\$ 0	\$ 2,510
<hr/>			
<u>FUND BALANCE</u>			
Reserved for:			
Fire Equipment	0	23,715	23,715
Advances	11,255	0	11,255
Unreserved			
Undesignated	309,498	0	309,498
Total Fund Balance	320,753	23,715	344,468
<hr/>			
TOTAL LIABILITIES AND FUND BALANCE	\$ 323,263	\$ 23,715	\$ 346,978
<hr/>			

The accompanying notes are an integral part of the financial statements.

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
MARCH 31, 2007

Total Fund Balance for Governmental Funds	\$ 344,468
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Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Land and Land Improvements	23,367	
Buildings	28,435	
Equipment, Furniture and Fixtures	28,016	
Infrastructure	238,138	
Accumulated Depreciation	(42,920)	275,036

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 619,504</u>
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The accompanying notes are an integral part of the financial statements.

RICHMOND TOWNSHIP, OSCEOLA COUNTY

REED CITY, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2007

	GENERAL FUND	FIRE EQUIPMENT FUND	TOTAL
<u>REVENUES</u>			
Taxes	\$ 55,172	\$ 23,715	\$ 78,887
Licenses and Permits	1,217	0	1,217
State Grants	130,734	0	130,734
Charges for Services	23,672	0	23,672
Interest and Rents	15,286	0	15,286
Other Revenues	306	0	306
Total Revenues	226,387	23,715	250,102
<u>EXPENDITURES</u>			
Legislative	20,159	0	20,159
General Government	76,245	0	76,245
Public Safety	52,933	0	52,933
Public Works	111,494	0	111,494
Community and Economic Development	500	0	500
Other Functions	13,223	0	13,223
Capital Outlay	855	0	855
Total Expenditures	275,409	0	275,409
Net Change in Fund Balance	(49,022)	23,715	(25,307)
<u>FUND BALANCE</u> - Beginning of Year	369,775	0	369,775
<u>FUND BALANCE</u> - End of Year	\$ 320,753	\$ 23,715	\$ 344,468

The accompanying notes are an integral part of the financial statements.

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
MARCH 31, 2007

Net Change in Fund Balance - Total Governmental Funds	\$ (25,307)
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities.

These costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(6,937)
Capital Outlay	<u>108,244</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 76,000</u></u>
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The accompanying notes are an integral part of the financial statements.

RICHMOND TOWNSHIP, OSCEOLA COUNTY

REED CITY, MICHIGAN

PROPRIETARY FUND

STATEMENT OF NET ASSETS

MARCH 31, 2007

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUND - MAJOR FUND

	<u>SEWER FUND</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 15,608
Accounts Receivable	4,867
Total Current Assets	20,475
<u>CAPITAL ASSETS</u>	
Improvements Other Than Buildings	629,895
Less Accumulated Depreciation	49,776
Net Capital Assets	580,119
TOTAL ASSETS	\$ 600,594
<u>LIABILITIES AND NET ASSETS</u>	
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	\$ 22,440
Accrued Interest	1,885
Due to Other Funds	3,956
Current Portion of Note Payable	20,529
Total Current Liabilities	48,810
<u>LONG-TERM LIABILITIES</u>	
Note Payable	176,923
Advance from Other Fund	11,255
Total Long-Term Liabilities	188,178
TOTAL LIABILITIES	236,988
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	382,667
Unrestricted	(19,061)
Total Net Assets	363,606
TOTAL LIABILITIES AND NET ASSETS	\$ 600,594

The accompanying notes are an integral part of the financial statements.

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

MARCH 31, 2007

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUND - MAJOR FUND

	<u>SEWER FUND</u>
<u>OPERATING REVENUES</u>	
Charges for Services	
Sewer Use Charges	\$ 8,458
<u>OPERATING EXPENSES</u>	
Operating and Maintenance	1,583
Depreciation	6,300
	<hr/>
Total Operating Expenses	7,883
	<hr/>
Operating Income (Loss)	575
	<hr/>
<u>NONOPERATING REVENUES (EXPENSES)</u>	
Interest Income	379
Interest Expense	(3,248)
	<hr/>
Total Nonoperating Income (Expense)	(2,869)
	<hr/>
Income (Loss) Before Capital Contributions	(2,294)
	<hr/>
<u>CAPITAL CONTRIBUTIONS</u>	
Contributions from Local Units - D.D.A.	200,000
	<hr/>
Change in Net Assets	197,706
	<hr/>
<u>NET ASSETS</u> - Beginning of Year	165,900
	<hr/>
<u>NET ASSETS</u> - End of Year	\$ 363,606
	<hr/>

The accompanying notes are an integral part of the financial statements.

RICHMOND TOWNSHIP, OSCEOLA COUNTY

REED CITY, MICHIGAN

PROPRIETARY FUND

STATEMENT OF CASH FLOWS

MARCH 31, 2007

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUND - MAJOR FUND

	<u>SEWER FUND</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 7,579
Cash Payments to Suppliers for Goods and Services	(521)
	<hr/>
Net Cash Provided by Operating Activities	7,058
	<hr/>
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	(397,452)
Loan Proceeds	197,452
Contributions from Local Units	200,000
Interest Paid on Advances	(1,363)
Principal Paid on Advances	(3,956)
	<hr/>
Net Cash Used by Capital and Related Financing Activities	(5,319)
	<hr/>
Cash Flows from Investing Activities:	
Interest Received	379
	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	2,118
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	<hr/> 13,490
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	<hr/> \$ 15,608
	<hr/>
<u>RECONCILIATION OF OPERATING INCOME</u> <u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>	
Operating Income (Loss)	<hr/> \$ 575
Adjustments to Reconcile Operating Income	
To Net Cash Provided by Operating Activities	
Depreciation	6,300
(Increase) Decrease in Current Assets	
Accounts Receivable	(879)
Increase (Decrease) in Current Liabilities	
Due to Other Funds	1,062
	<hr/>
Total Adjustments	6,483
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<hr/> \$ 7,058
	<hr/>

The accompanying notes are an integral part of the financial statements.

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

FIDUCIARY FUND

STATEMENT OF FIDUCIARY NET ASSETS

MARCH 31, 2007

	<u>AGENCY</u>
<u>ASSETS</u>	
Cash	<u>\$ 58,292</u>
 <u>LIABILITIES</u>	
Due to Other Governments	\$ 25,349
Due to Other Funds	<u>32,943</u>
 TOTAL LIABILITIES	<u>58,292</u>
 <u>NET ASSETS</u>	<u><u>0</u></u>

The accompanying notes are an integral part of the financial statements.

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

COMPONENT UNIT

STATEMENT OF NET ASSETS
MARCH 31, 2007

	<u>DOWNTOWN DEVELOPMENT AUTHORITY FUND</u>
<u>ASSETS</u>	
Cash	\$ 122,473
<u>CAPITAL ASSETS</u>	
Infrastructure	7,464
Less Accumulated Depreciation	(809)
Net Capital Assets	<u>6,655</u>
TOTAL ASSETS	<u>129,128</u>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	<u>0</u>
<u>NET ASSETS</u>	
Invested in Capital Assets	6,655
Unrestricted	<u>122,473</u>
TOTAL NET ASSETS	<u><u>\$ 129,128</u></u>

The accompanying notes are an integral part of the financial statements.

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

COMPONENT UNIT

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2007

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	TOTALS
<u>Major Component Unit</u>				
Downtown Development Authority	\$ 210,123	\$ 0	\$ 0	\$ (210,123)
<u>GENERAL REVENUES</u>				
	Property Tax			72,036
	Unrestricted Investment Earnings			7,687
	Total General Revenues			79,723
	Change in Net Assets			(130,400)
	NET ASSETS - Beginning of Year			259,528
	NET ASSETS - End of Year			\$ 129,128

The accompanying notes are an integral part of the financial statements.

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Richmond Township is a general law township located in Osceola County which operates under the direction of an elected township board. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the primary government. Each discretely presented component unit has a March 31 year end.

BLENDED COMPONENT UNITS

The Township has no blended component units.

DISCRETELY PRESENTED COMPONENT UNITS

Downtown Development Authority (DDA) – The DDA was established through a Township Ordinance under Act No. 197 of the Public Acts of Michigan of 1975. The Township Board determined that it was necessary and in the best interest of the Township to halt property value deterioration and increase property tax valuation where possible in the DDA District, to eliminate the causes, and to promote economic growth.

B. Government-wide and Fund Financial Statements

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivables due within the current period is considered to be susceptible to accrual as revenue of the current period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Richmond Township reports the following major governmental fund:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Fire Equipment Fund* accounts for revenue sources that are legally restricted to expenditures for fire equipment.

Richmond Township reports the following major proprietary fund:

The *Sewer Fund* records financial activity of the Township's sewer operation. The *proprietary funds* are used to account for those operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Additionally Richmond Township reports the following fund types:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Sewer Fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

(I) The Township Board has authorized the Township to invest as follows:

- (a) In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (II).
- (c) In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- (d) In repurchase agreements consisting of instruments listed in subdivision (a).
- (e) In bankers' acceptances of United States banks.
- (f) In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
- (g) Mutual funds registered under the Investment Company Act of 1940, Title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share.

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

- (h) In obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967, 1967 (Ex Sess) PA7, MCL 124.501 to 124.512.
- (i) In investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.111 to 129.118.
- (j) In investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.
- (II) A public corporation that invests its funds under subsection (I) shall not deposit or invest the funds in a financial institution that is not eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
- (III) Assets acceptable for pledging to secure deposits of public funds are limited to assets authorized for direct investment under subsection (I).
- (IV) As used in this section, "financial institution" means a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and two-thirds of county taxes are levied and due July 1, and become delinquent after September 14. The remaining millages are levied and due December 1, and become delinquent after February 14. Collections of school and county taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

The 2006 taxable valuation of Richmond Township totaled \$45,927,652, on which ad valorem taxes levied consisted of 0.9549 mills for the Richmond Township operating purposes and 0.6000 mills for fire equipment. These levies raised approximately \$43,851 for operating purposes and \$27,527 for fire equipment. Portions of these taxes levied were captured by the Downtown Development Authority.

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$300 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building Improvements and Land Improvements	20
Public domain infrastructure	50
Vehicles	10
Equipment	5-10

5. *Long-term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures

6. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. *Use of Estimates*

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on March 18, 2006, or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures. The Board did not adopt a budget for Fire Equipment Fund.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. Funds with Expenditures in Excess of Appropriations were as follows:

	<u>APPROPRIATIONS</u>		<u>EXPENDITURES</u>
General Fund			
Election	\$ 4,592	\$	17,509
Clerk	10,610		10,862
Capital Outlay	0		855

These overages were funded by greater than anticipated revenues and available fund balance.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Township's deposits are all on deposit with the Huntington National Bank, in Reed City, Michigan.

Investment rate risk. The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

Foreign currency risk. The Township is not authorized to invest in investments, which have this type of risk.

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

Credit risk. The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Township's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Township will do business in accordance with the Township's investment policy.

Concentration of credit risk. The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2007, \$145,430 of the Township's bank balance of \$367,543 was exposed to custodial credit risk because it was uninsured and uncollateralized. As of the same date, \$22,473 of the discretely presented component unit's balance of \$122,473 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township's investments are categorized to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At year end, the Township held no investments.

A reconciliation of cash follows:

	<u>PRIMARY GOVERNMENT</u>	<u>COMPONENT UNIT</u>
Cash on Hand	\$ 20	\$ 0
Carrying amount of Deposits	<u>339,070</u>	<u>122,473</u>
Total	<u>\$ 339,090</u>	<u>\$ 122,473</u>
Government-wide Statement of Net Assets		
Cash	\$ 280,798	\$ 122,473
Statement of Fiduciary Net Assets		
Cash	<u>58,292</u>	<u>0</u>
Total	<u>\$ 339,090</u>	<u>\$ 122,473</u>

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

B. Receivables

Receivables as of year end for the government's individual major funds, are as follows:

	General	Fire Equipment	Sewer	Total
Receivables				
Accounts	\$ 0	\$ 0	\$ 4,867	\$ 4,867
Intergovernmental	28,025	0	0	28,025
Taxes	3,460	2,149	0	5,609
	<u>\$ 31,485</u>	<u>\$ 2,149</u>	<u>\$ 4,867</u>	<u>\$ 38,501</u>

The allowance for doubtful accounts is not considered to be material for disclosure. In addition, any delinquent sewer service receivables can be placed on the tax rolls as a lien against real property. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

No deferred revenue was recorded in any of the funds at the end of the current fiscal year.

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

C. Capital Assets

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 23,367	\$ 0	\$ 0	\$ 23,367
Capital assets, being depreciated				
Buildings	28,435	0	0	28,435
Infrastructure	141,161	96,977	0	238,138
Equipment, Furniture and Fixtures	16,749	11,267	0	28,016
Total capital assets, being depreciated	186,345	108,244	0	294,589
Less accumulated depreciation for:				
Buildings	20,430	451	0	20,881
Infrastructure	2,776	4,278	0	7,054
Equipment, Furniture and Fixtures	12,777	2,208	0	14,985
Total accumulated depreciation	35,983	6,937	0	42,920
Total capital assets, being depreciated, net	150,362	101,307	0	251,669
Governmental activities capital assets, net	\$ 173,729	\$ 101,307	\$ 0	\$ 275,036

Business-Type Activities

Capital assets, being depreciated				
Improvements other than buildings	\$ 210,003	\$ 419,892	\$ 0	\$ 629,895
Less accumulated depreciation for:				
Improvements other than buildings	43,476	6,300	0	49,776
Business-type activities capital assets, net	\$ 166,527	\$ 413,592	\$ 0	\$ 580,119

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General Government	\$ 2,659
Public Works	<u>4,278</u>

Total depreciation expense - governmental activities	<u><u>\$ 6,937</u></u>
--	------------------------

Business-type activities:

Sewer	<u><u>\$ 6,300</u></u>
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Construction Commitments:

The government has no outstanding construction commitments as of March 31, 2007.

Discretely Presented Component Unit:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, being depreciated				
Infrastructure	\$ 7,464	\$ 0	\$ 0	\$ 7,464
Less accumulated depreciation for:				
Infrastructure	436	373	0	809
Total capital assets, being depreciated, net	<u><u>\$ 7,028</u></u>	<u><u>\$ (373)</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 6,655</u></u>

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at March 31, 2007, were:

<u>FUND</u>	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 15,333	0
Special Revenue Funds		
Fire Equipment	21,566	0
Enterprise Funds		
Sewer	0	3,956
Fiduciary Funds		
Current Tax Collection	<u>0</u>	<u>32,943</u>
	<u><u>\$ 36,899</u></u>	<u><u>\$ 36,899</u></u>

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

As of March 31, 2007, there were no transfers.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Long-Term Debt

The following is a summary of the long-term debt transactions of the Township for the year ended March 31, 2007:

Business type Activities:

	<u>INSTALLMENT NOTE</u>
Long-Term Debt Payable	
At April 1, 2006	\$ 0
New Debt Incurred	197,452
Payments on Debt	<u>0</u>
LONG-TERM DEBT PAYABLE AT MARCH 31, 2007	<u><u>\$ 197,452</u></u>
Amount due within one year	<u><u>\$ 20,529</u></u>

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

<u>YEAR ENDING</u> <u>JUNE 30,</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2008	\$ 20,529	\$ 5,872	\$ 26,401
2009	19,412	6,989	26,401
2010	20,179	6,222	26,401
2011	20,976	5,425	26,401
2012	21,805	4,596	26,401
2013-2016	94,551	9,422	103,973
	<u>\$ 197,452</u>	<u>\$ 38,526</u>	<u>\$ 235,978</u>

Installment Notes:

\$197,452 Sewer Extension Project note due in annual installments
of \$24,770 to \$26,401 through October 1, 2015; interest at 3.95% \$ 197,452

F. Fund Balance Reserves and Designations

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has reserved fund balances/retained earnings in various funds. In addition, certain portions of unreserved fund balances/retained earnings have been designated for intended future uses. These reserves and designations are detailed in the following schedule:

FUND BALANCE/NET ASSETS

Reserved

General Fund

Advances \$ 11,255

Special Revenue Funds

Fire Equipment Fund

Fire Equipment 23,715

TOTAL FUND BALANCE

RESERVATIONS AND DESIGNATIONS \$ 34,970

IV. OTHER INFORMATION

A. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, errors and

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

omissions insurance and workers' compensation. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

B. Advance from General Fund to Sewer Fund

The Township General Fund had advanced to the Township Sewer Fund monies to payoff a prior sewer fund debt and pay for various expenses on behalf of the Sewer Fund. The advance was established on November 21, 1995, by resolution and calls for the Sewer Fund to pay the General Fund quarterly payments of \$1,064 including interest at 8% through November 2010.

C. Fire Protection Contract

The Township entered into an agreement with the City of Reed City on August 1, 1997, whereas, the City will provide the Township with fire protection services. The agreement calls for the Township to pay the City the equivalent of $\frac{3}{4}$ mill (.00075) of the taxable valuation of the real property located in the Township.

D Retirement Plan

The Township has a defined contribution pension plan with Manufacturers Life Insurance Company which covers all Township salaried employees. The annual contribution is 25% of the first \$2,400 of compensation and 20% of salary in excess of \$2,400. Of the total contribution of each participant, 75% is paid by the Township and 25% by the official. The Township's 2006-07 contribution amounted to \$5,497, including participation fees of \$1,038, and participants contributed \$1,690.

To participate in the plan, an individual must be at least 18 years of age. Benefits attributable to the Township are vested in the participants immediately.

Normal retirement age under the plan is 65. Early retirement is permitted at any time after attainment of age 55.

For purposes under the plan, including the allocation of employer contributions, compensation means the basic annual rate of compensation in effect at the beginning of each plan year. For the 2006-07 year, covered compensation was \$30,455 and the total of all wages including noncovered wages was \$47,015.

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

E. Component Unit Disclosures

The following presents the condensed financial statements for discretely presented component unit.

Condensed Financial Statements - Discretely Presented Component Unit
Balance Sheet

	<u>DOWNTOWN DEVELOPMENT AUTHORITY</u>
Assets	
Current Assets	\$ 122,473
Liabilities	
Current Liabilities	\$ 0
Fund Balance	
Unreserved	122,473
 TOTAL LIABILITIES AND FUND BALANCE	 \$ 122,473

Statement of Revenues, Expenditures, and Changes in Fund Balance

	<u>DOWNTOWN DEVELOPMENT AUTHORITY</u>
Revenues	\$ 79,723
Expenditures	
Economic Development	209,750
Excess of Revenues Over (Under) Expenditures	(130,027)
Fund Balance - Beginning of Year	252,500
Fund Balance - End of Year	\$ 122,473

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2007

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Taxes	\$ 53,500	\$ 53,500	\$ 55,172
Licenses and Permits	0	0	1,217
State Grants	117,288	117,288	130,734
Charges for Services	16,300	16,300	23,672
Interest and Rents	0	0	15,286
Other Revenues	18,000	18,000	306
Total Revenues	205,088	205,088	226,387
<u>EXPENDITURES</u>			
Legislative	26,120	25,664	20,159
General Government			
Supervisor	7,280	7,280	7,280
Clerk	10,610	10,610	10,862
Board of Review	1,800	3,661	3,661
Treasurer	16,345	16,742	15,964
Assessor	15,000	14,925	14,489
Elections	3,000	4,592	17,509
Buildings and Grounds	8,000	8,000	6,480
Public Safety			
Fire	40,100	43,004	43,004
Planning and Zoning	14,800	14,900	9,929
Public Works			
Roads	92,000	96,977	96,977
Street Lights	2,000	2,000	1,440
Sanitation	14,240	14,360	13,077
Community and Economic Development	2,000	2,000	500
Other Functions	20,000	20,000	13,223
Capital Outlay	0	0	855
Contingency	20,000	8,580	0
Total Expenditures	293,295	293,295	275,409
Net Change in Fund Balance	(88,207)	(88,207)	(49,022)
<u>FUND BALANCE</u> - Beginning of Year	0	0	369,775
<u>FUND BALANCE</u> - End of Year	\$ (88,207)	\$ (88,207)	\$ 320,753

RICHMOND TOWNSHIP, MISSAUKEE COUNTY
REED CITY, MICHIGAN

CURRENT TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED MARCH 31, 2007

	BALANCE			BALANCE
	4/1/2006	ADDITIONS	DEDUCTIONS	3/31/2007
<u>ASSETS</u>				
Cash	\$ 44,699	\$ 1,401,809	\$ 1,388,216	\$ 58,292
<u>LIABILITIES</u>				
Refunds Payable to Taxpayers	\$ 60	\$ 3,061	\$ 3,121	\$ 0
Due to Other Governments	39,018	1,316,184	1,329,853	25,349
Due to Other Funds	5,621	82,564	55,242	32,943
TOTAL LIABILITIES	\$ 44,699	\$ 1,401,809	\$ 1,388,216	\$ 58,292

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY

BALANCE SHEET
MARCH 31, 2007

ASSETS

Cash	\$ 122,473
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LIABILITIES AND FUND BALANCE

<u>LIABILITIES</u>	\$ 0
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Total Liabilities	0
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<u>FUND BALANCE</u>	
Unreserved	122,473

TOTAL LIABILITIES AND FUND BALANCE	\$ 122,473
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RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>		
Taxes		
Property Tax	\$ 64,448	\$ 72,036
Interest and Rents		
Interest Earnings	6,500	7,687
Total Revenues	<u>70,948</u>	<u>79,723</u>
<u>EXPENDITURES</u>		
Economic Development		
Office Expense	100	0
Contracted Services	0	8,406
Intergovernmental Expenditures	200,000	200,000
Legal	0	1,344
Printing and Publishing	100	0
Contingency	20,000	0
Total Expenditures	<u>220,200</u>	<u>209,750</u>
Excess of Revenues Over (Under) Expenditures	(149,252)	(130,027)
<u>FUND BALANCE</u> - Beginning of Year	<u>225,413</u>	<u>252,500</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 76,161</u>	<u>\$ 122,473</u>

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

STATEMENT OF 2006 REGULAR TAX ROLL
MARCH 31, 2007

TAXES ASSESSED

County	\$	364,668	
County - State Education Tax		275,315	
Township			
Operating		37,910	
Fire Equipment		23,808	
Richmond Township Downtown Development Authority		66,818	
School			
Reed City Public Schools		478,343	
Intermediate School			
Mecosta-Osceola Intermediate School District		<u>187,687</u>	1,434,549

TAXES COLLECTED

County		333,163	
County - State Education Tax		257,622	
Township			
Operating		34,271	
Fire Equipment		21,546	
Richmond Township Downtown Development Authority		66,818	
School			
Reed City Public Schools		436,630	
Intermediate School			
Mecosta-Osceola Intermediate School District		<u>172,108</u>	1,322,158

TAXES RETURNED DELINQUENT

County		31,505	
County - State Education Tax		17,693	
Township			
Operating		3,639	
Fire Equipment		2,262	
Richmond Township Downtown Development Authority		0	
School			
Reed City Public Schools		41,713	
Intermediate School			
Mecosta-Osceola Intermediate School District		<u>15,579</u>	<u>\$ 112,391</u>

RICHMOND TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

STATEMENT OF 2006 INDUSTRIAL FACILITIES TAX ROLL
MARCH 31, 2007

TAXES ASSESSED

County	\$	315	
State Education Tax		10,886	
Township			
Operating		33	
Fire Equipment		20	
Richmond Township Downtown Development Authority		9,374	
School			
Reed City Public Schools		19,967	
Intermediate School			
Mecosta-Osceola Intermediate School District		<u>3,707</u>	44,302

TAXES COLLECTED

County		315	
State Education Tax		10,886	
Township			
Operating		33	
Fire Equipment		20	
Richmond Township Downtown Development Authority		9,374	
School		0	
Reed City Public Schools		19,967	
Intermediate School		0	
Mecosta-Osceola Intermediate School District		<u>3,707</u>	44,302

TAXES RETURNED DELINQUENT

County		0	
County - State Education Tax		0	
Township			
Operating		0	
Fire Equipment		0	
Richmond Township Downtown Development Authority		0	
School			
Reed City Public Schools		0	
Intermediate School			
Mecosta-Osceola Intermediate School District		<u>0</u>	<u>\$ 0</u>

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

PHONE: 231-775-9789 FAX: 231-775-9749

www.bcbcpa.com

July 27, 2007

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Township Board
Richmond Township
Osceola County
Reed City, Michigan

During the course of our audit of the financial statements of Richmond Township for the year ended March 31, 2007, we noted the following:

Tax Collection Fund Balance

A balance remained in the Tax Collection Fund at March 31, 2007. We recommend that the Township disburse each year all remaining funds in the Tax Collection Fund by March 31, except a small residual amount to maintain a minimum balance in order to keep the bank accounts open.

Township Financial Records

We recommend that the Treasurer and Clerk consider using an actual accounting program such as QuickBooks or Peachtree in lieu of Quicken to record the Township transactions. Quicken can easily be converted to QuickBooks. Additionally, we recommend that the Township split up all separate funds in their own Quicken file into separate Quicken or QuickBooks files to ensure proper balancing of each fund and better internal control. We are available to assist if desired.

Internal Control

While we observed the weekly summary sheets from the Transfer Station attendant, we did not observe a balance to be able to tie the amount collected to the amount deposited or a signature verifying the amount on the summary sheets equaled the amount collected. We recommend the Transfer Station attendant foot the weekly summary sheets and sign it to verify that the amount collected came to total on the summary sheet. Also, the Treasurer should be writing a receipt to the Transfer Station attendant that agrees to signed weekly summary sheet.

Making Timely Deposits

Our audit testing in the area of cash receipts revealed that the Transfer Station deposits were not being made timely. This practice opens the Township to the threat of a loss or theft of cash while it is on the premises. To strengthen internal controls in this area, we suggest that the Township make Transfer

Station deposits weekly. This practice will firmly strengthen the Township's internal control process over cash receipts and greatly lessen the likelihood that cash could be lost or stolen before it is deposited in the bank.

We would like to thank the board for its continued confidence in our firm and to thank the township clerk and treasurer for their cooperation.

If you have any questions relative to the above items or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

PHONE: 231-775-9789 FAX: 231-775-9749

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July 27, 2007

To the Township Board
Richmond Township
Osceola County
Reed City, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the Business-Type Activities, each major fund, and the aggregate remaining fund information of the Richmond Township as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Richmond Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the a governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interest of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

3) Lack of Adequate Controls to Reconcile Property Tax Collections and Payments

One of the primary functions of Townships in the state of Michigan is to collect and distribute property taxes. As noted in the past, the Township has a relatively complex tax collection process due to the Township collecting ad valorem taxes as well as an industrial facilities tax roll (IFT) and spreading both between a Downtown Development Authority and other local units of government.

At the time of the last audit two years ago the tax collection fund balance was reconciled and drawn down to a \$1,000 advance from the Township's General Fund. Since that time, the Township has not been able to accurately reconcile who the funds in the tax collection fund are owed to.

This condition was caused by the Township's failure to implement a control system that accurately tracks tax receipts and corresponding disbursements as well as accounting for every dollar in the Township tax collection bank accounts by knowing specifically who the funds are owed to at any given time. Additionally, all of the funds to be accounted for must also reconcile to the original ad valorem and IFT tax rolls and the DDA capture as well as adjusting for changes to the roll during the year.

This reconciliation process is very hard to accomplish after the fact. It must be done timely and accurately throughout the year, and if problems exist, they must be immediately solved by the Township. The Township cannot blindly rely on its tax collection software to be accurate. Controls must

be in place to verify the accuracy of the tax collection software throughout the process from beginning to end. The accuracy of the software is extremely dependent on accurate set up and accurate data entry throughout the process.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe the deficiency described in number 1 above (Lack of Segregation of Duties) is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.